

ORIGINAL

OPEN MEETING



0000056559

MEMORANDUM

410

2006 JUN 23 P 4:09

TO: THE COMMISSION

FROM: Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: June 23, 2006

RE: IN THE MATTER OF THE JOINT APPLICATION OF ELECTRIC LIGHTWAVE, INC. AND INTEGRA TELECOM HOLDINGS, INC. FOR APPROVAL OF A LIMITED WAIVER OF THE PUBLIC UTILITY HOLDING COMPANIES AND AFFILIATED INTEREST RULES (DOCKET NO T-03054A-06-0154)

Introduction

On March 9, 2006, Electric Lightwave, Inc.¹ ("ELI") and Integra Telecom Holding, Inc. ("Integra") filed a joint application requesting a limited waiver of the Arizona Corporation Commission's ("Commission") Public Utility Holding Companies and Affiliated Interest Rules, A.A.C. R14-2-801 to R14-2-806, in connection with a proposed transaction whereby Integra will acquire 100 percent control of ELI².

On March 30, 2006, in response to a preliminary meeting requested by the Applicants on February 24, 2006, the Applicants provided additional information and documents regarding the application. The information was supplemented with additional information on April 4, 2006.

On April 7, 2006, the Applicants filed an amendment to address the financing associated with Integra's acquisition of ELI. In addition to its limited waiver application, the Applicants requested an order from the ACC:

- (i) authorizing the "pledge, mortgage, lien and/or encumbrance of the utility plant and assets of ELI in connection with the Loan to Integra pursuant to A.R.S. § 40-285;
- (ii) granting a limited waiver of A.A.C. R14-2-804(B) for ELI to guarantee the obligations of Integra or, in the alternative, authorizing ELI to guarantee the obligations of Integra under the Loan pursuant to A.A.C. R14-2-804(B); and
- (iii) finding that the requirements of A.R.S. § 40-301 *et seq.*, as they might otherwise apply to this transaction, are inapplicable to ELI as a foreign public service corporation providing communications service within the State of Arizona pursuant to the exemption set forth in A.R.S. § 40-301(D)."

¹ To the extent necessary, ELI requests that the Commission change the name associated with its certificate of convenience and necessity from "Electric Lightwave, Inc." to "Electric Lightwave, LLC."

² Based on its operational revenues, ELI is considered a Class A Utility and therefore subject to the Rules.

THE COMMISSION

June 23, 2006

Page 2

On April 7 and April 14, 2006, the Applicant provided information in response to Staff's First Set of Data Request.

On May 26, 2006, the Applicant provided information in response to Staff's Second Set of Data Requests.

Background of Applicants

ELI was founded in 1990 and organized under the laws of Delaware, and headquartered at 4400 NE 77th Avenue, Vancouver, Washington 98662. ELI is a wholly-owned subsidiary of CU Capital LLC ("CU Capital"), a Delaware limited liability company, which is wholly-owned by Citizens Communications Company ("Citizens"), a Delaware corporation.

ELI provides integrated communications products, including local telephone, data, network, and long distance services, to small and medium enterprise businesses, carriers, and the growing e-commerce market. ELI has built and operates networks in Phoenix, Arizona; Portland, Oregon; Seattle, Washington; Sacramento, California; Salt Lake City, Utah; and Boise, Idaho. Nationwide, ELI offers long distance, data, Internet access and broadband transport services.

In Arizona, ELI is authorized to provide local exchange and intraLATA toll services pursuant to a Certificate of Convenience and Necessity granted by the Commission in Decision No. 59982 issued in Docket No. U-3054A-95-503 on January 16, 1997. ELI is a full service telecommunications provider, offering business customers a suite of integrated products and services, including local phone service, switched and dedicated long distance, private networks, advanced data and Internet access services.

ELI's product suite is targeted at business customers that desire service at a DS 1 level 1.544 Megabits per second and the equivalent of 24 channels or above. ELI serves approximately 1,793 business customers and employs approximately 27 people in Arizona. ELI does not offer service to residential customers in Arizona.

ELI's primary operations and customer base in Arizona are in the greater Phoenix metropolitan area. ELI also provides some services in other areas in Arizona, including Flagstaff, Tucson, Kingman, Casa Grande, Prescott, Yuma, and Bullhead City.

Integra Telecom Holdings, Inc. is an Oregon corporation headquartered at 1201 NE Lloyd Boulevard, Suite 500, Portland, Oregon 97232. Integra Telecom was founded in 1996 through the acquisition of OGI Telecomm, a shared tenant provider formed in 1984 to provide voice and data services to the Oregon Graduate Institute and businesses in the AmberGlen Business Park, a contiguous office park. In 1998, the company adopted the name Integra Telecom.

Integra's operating subsidiaries hold certificates to provide telecommunication services in Idaho, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota,

Utah, Washington, and Wisconsin. Integra and its operating subsidiaries also are authorized by the Federal Communications Commission to provide interstate and international telecommunications. Integra is a facilities-based service provider, operating its network from various switching centers throughout its operating regions. Integra serves over 300,000 access lines across its operating area.

The Applicants' Transaction

The Applicants represent the following:

The Applicants entered into a Membership Interest Purchase Agreement dated February 6, 2006. Pursuant to the Agreement, Integra will purchase all interests in ELI from CU Capital, and will thereby become the sole controlling owner of ELI. The purchase price to be paid by Integra will be approximately \$247 million including \$243 million in cash plus the assumption of \$4 million in capital leases, subject to customary adjustments.

Immediately following the transaction, ELI will continue to operate as a separate subsidiary of Integra and under its current CC&N granted by the Commission in 1997.

The transaction will not cause ELI to increase its maximum rates on file with the Commission for its competitive services.

ELI provides competitive services to small and medium enterprise businesses, carriers, and the growing e-commerce market. The market for such services is highly competitive and prices are set by competition. Accordingly, ELI has no incentive to charge unduly high or above-market prices that could be used to fund or subsidize unregulated affiliates or to commingle utility and non-utility funds in a manner that is harmful to Arizona consumers.

The Transaction is expected to result in the creation of jobs, increased customer choice, and capital investment in Arizona. ELI currently employs approximately 27 people in Arizona. Applicants intend to increase that number to roughly 80 people within the first twenty-four months after closing and to continue to add employees as the organization grows in the future.

After closing this Transaction, ELI intends to begin offering DSO (plain old telephone service) and DSL service, and related services and features, to small businesses in Arizona that currently cannot obtain those services from ELI.

The Transaction will be conducted in a manner that is expected to be virtually transparent to Arizona customers. The transfer of control linked to this Transaction will not result in the discontinuance, reduction, loss, or impairment of service to customers.

In conjunction with the Transaction, Integra will raise a total of approximately \$450 million in new debt. Of that amount, approximately \$243 million will be paid to CU Capital for

the acquisition of all interests in ELI, and approximately \$175 million will be used to refinance Integra's current loan obligations. Integra will hold all of the debt associated with the purchase.

The financing package includes two loan facilities, which, upon closing, will be secured by the assets of Integra and its operating subsidiaries, including the assets of ELI in Arizona.

Integra and its operating subsidiaries, including ELI, will execute guarantee agreements and become guarantors of the debt held by Integra.

Integra has the financial wherewithal to undertake the obligations associated with the Loan as evidenced by the audited consolidated financial statements for the years ended December 31, 2005, 2004 and 2003, copies of which have previously been provided to Utilities Division Staff pursuant to a Protective Agreement dated March 23, 2006.

Integra's capacity to service debt will be enhanced by the accretive cash flows that Integra will derive from the acquisition of ELI. Sophisticated investors, many of whom are current or prior investors in Integra, are funding the Loan, providing additional third party evidence of Integra's financial wherewithal to undertake the obligations associated with the Loan.

Integra has an existing debt with an outstanding balance of \$174.5 million as of December 31, 2005. Upon completion of this transaction, Integra will have outstanding debt of \$450 million. Currently, ELI does not have any outstanding debt.

Staff's Analysis and Conclusions

Integra has informed Staff that neither Integra Telecom Holdings, Inc. nor any of its operating subsidiaries have had any bankruptcies, civil judgments or criminal convictions.

Integra has informed Staff that, other than the acquisition of ELI, there are no pending mergers involving Integra Telecom, Inc., Integra Telecom Holdings, Inc., or any of the subsidiaries of Integra Telecom Holdings, Inc.

A copy of the customer notice being mailed to ELI customers has been provided to Staff and is included as Attachment A.

Staff believes that the structure of ELI within Citizens combined with the nature of this Transaction should have no impact on Citizens and its ILEC operations in Arizona. ELI is a wholly-owned subsidiary of Citizens and is being purchased in its entirety by Integra. The accounting separations used by Citizens should have ensured that no cross subsidization occurred between Citizens's regulated and unregulated operations.

The Applicants have indicated that ELI's Arizona employees will not be reduced as a function of this Transaction. Staff believes that Integra's plan to increase ELI's current

THE COMMISSION

June 23, 2006

Page 5

employee base from 27 to approximately 80, within the first 24 months of operations, affords a welcomed opportunity to increase the competitive nature of an Arizona telecommunications market.

ELI has been found to be in compliance and good standing by the Commission's Compliance and Consumer Services sections. Additionally, Integra provided Staff with a report of its standing in other states (Attachment B).

ELI requests authorization to guarantee a \$200 million term loan and a second \$250 million term loan for Integra which will become ELI's parent company should the Commission authorize Integra to purchase membership interests in ELI. Integra plans to use \$243 million from the loans to purchase membership interests in ELI, \$175 million to refinance Integra's current loan obligations, and the remainder for expenses related to the transactions and excess operating cash. The guarantees will be secured by a pledge of ELI's plant and assets. The applicants seek only an encumbrance of ELI's assets. ELI's Arizona customers are business rather than residential customers. ELI currently has one customer deposit in Arizona in the total amount of \$1,200.

Staff's Recommendations

Staff recommends that the request contained in the subsequent financing amendment for authorization of ELI to guarantee the obligations of Integra under the Loan pursuant to A.A.C. R14-2-804(B) be approved.

Staff further recommends authorizing ELI to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff recommends that the joint application of ELI and Integra for approval of Integra's purchase of all the issued and outstanding membership interests in ELI be approved.

Staff further recommends that the Commission order include the following conditions:

1. That for one year following acquisition close or until ELI and Integra inform the Commission by filing an affidavit with Docket Control that acquisition-related activities are completed, whichever occurs last, ELI and Integra provide written notification to the Director of the Utilities Division and to the individual members of the Commission, at least 60 days in advance, of any planned acquisition-related Arizona workforce layoffs; any planned acquisition-related Arizona plant closings; and any planned acquisition-related Arizona facility closings.
2. That ELI and Integra be required to review its numbering resources in the 480, 520, 602, 623, and 928 NPAs. To the extent that the Company's numbering resources in these NPAs exceed a six month inventory, ELI be required to , within sixty days of a Commission Decision in this matter, return to the Pooling Administrator all surplus

THE COMMISSION

June 23, 2006

Page 6

thousands-blocks with less than ten percent contamination and inform the Commission of such actions through a filing in docket control.

3. That ELI and Integra provide Commission Staff, via Protective Agreement, with updates by April 15, 2007 and April 15, 2008 on the status of plans proposed in this Transaction to increase employees and investment in Arizona.
4. That ELI and Integra provide Commission Staff, via Protective Agreement, with updates by April 15, 2007 and April 15, 2008 on the status of debt financial plans proposed in amendments to this Transaction.
5. That ELI and Integra be limited from pledging any customer deposits, advances or prepayments currently held by ELI or which may be held by ELI in the future as security for any debt security.
6. That ELI notice its customers of the purchase of membership interests and financing application either through a direct mailing or publish notice in newspaper(s) of general circulation for ELI's customer base and file verification of the notice with Docket Control.



for

Ernest G. Johnson
Director
Utilities Division

EGJ:AFF:SPI:lhms\MAS

ORIGINATORS: Armando F. Fimbres/Steve P. Irvine

4400 NE 77th Avenue
Vancouver, WA 98662

(360) 816-3000 - FAX: (360) 816-0999

March 24, 2006

Dear [customer name]:

We are excited to inform you that Integra Telecom Holdings, Inc., an Oregon corporation, has agreed to purchase all of the outstanding ownership interests in Electric Lightwave, LLC (ELI) from Citizens Communications Company and its wholly owned subsidiary, CU Capital LLC. Please see the press release issued by Integra and attached to this letter. Integra Telecom shares ELI's commitment to customer service and, as a result of its commitment to customers, has been recognized as one of the fastest growing telecommunications companies dedicated to business and carrier customers. You can also learn more about Integra at <http://www.integratelecom.com>. Following the closing of the Transaction, ELI will remain in existence and continue to perform its obligations consistent with our existing relationship.

You can expect to receive the same high quality of service going forward, as ELI will continue to operate as a unit of Integra Telecom, maintaining the same products and services.

Please contact your ELI Representative at (866) 816-3000 with any questions.

ELECTRIC LIGHTWAVE, LLC

By: 

Name: Melinda White

Title: Vice President and General Manager



Citizens Communications
3 High Ridge Park
Stamford, CT 06905
203.614.5600
Web site: www.czn.net

FOR IMMEDIATE RELEASE

Contact:
Michael Bromley
Investor Relations
203-614-5218
mbromley@czn.com

Citizens Communications To Sell Electric Lightwave

Stamford, Conn., February 7, 2006 — Citizens Communications (NYSE:CZN) today announced that it has entered into a definitive agreement to sell its subsidiary Electric Lightwave ("ELI") to Integra Telecom Holdings, Inc. The total proceeds from the sale are \$247 million including \$243 million in cash plus the assumption of \$4 million in capital leases, subject to customary adjustments. The sale is expected to close during the third quarter of 2006 and is subject to regulatory and other customary approvals as well as the funding of Integra's fully committed financing. The price will result in a book pre-tax gain on sale of approximately \$130 million.

ELI is a facilities-based integrated provider of internet, data, voice and dedicated access services to businesses and other carriers in the western United States. Cities and surrounding areas served by ELI are: Boise, Idaho; Portland, Oregon; Salt Lake City, Utah; Seattle, Washington; Spokane, Washington; Phoenix, Arizona; and Sacramento, California.

The expected use of net cash proceeds is for general corporate purposes.

Integra is a facilities-based integrated communications provider that primarily serves small and mid-sized companies located in the business centers of Minnesota, North Dakota, Oregon, Utah and Washington. Integra expects to close 2005 with \$155 million in revenue and 280,000 lines in service. Integra is a private company whose primary shareholders are Boston Ventures, Bank of America Capital and Nautic Partners. Integra's financing commitments are being provided by Goldman Sachs Specialty Lending Group and CIBC World Markets Corp. The company is headquartered in Portland, Oregon.

About Citizens Communications

More information about Citizens can be found at www.czn.net.

This document contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. These and all forward-looking statements (including oral representations) are only predictions or statements of current plans that are constantly under review by the company. All forward-looking statements may differ from actual results. The foregoing information should be read in conjunction with the company's filings with the U.S. Securities and Exchange Commission including, but not limited to, reports on Forms 10-K and 10-Q. The company does not intend to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

###

Customer Complaints and Regulatory Actions

Neither Integra Telecom Holdings, Inc., nor any of its subsidiaries, provides or has provided telecommunications services in Arizona. Thus, neither Integra Telecom Holdings, Inc., nor any of its subsidiaries, has ever received a customer complaint or been the subject of any regulatory enforcement proceeding in Arizona. In 2000, Integra Telecom of Arizona, Inc. filed an application with the Arizona Corporation Commission ("Commission") for a certificate of convenience and necessity to provide competitive local exchange and interexchange services in Arizona in Docket No. T-03856A-00-0178. However, the application was subsequently withdrawn by the applicant for business reasons before the Commission acted upon the application.

Like most businesses, the operating subsidiaries of Integra Telecom Holdings, Inc., work to diligently resolve customer complaints as part of their ongoing operations. The number of complaints lodged against Integra Telecom Holdings, Inc.¹ and its operating subsidiaries, however, is relatively small when compared with the total number of customers served by these subsidiaries. From January 2004 through January 2006, Integra Telecom Holdings, Inc. and the six operating subsidiaries currently providing local exchange services² were subject to a combined total of approximately 142 formal or informal customer complaints or regulatory enforcement actions. These six operating subsidiaries serve approximately 64,000 customers (with more than 300,000 access line equivalents) across a five-state operating region.

Of the complaints and regulatory proceedings identified above, only three have gone to a formal adjudicative proceeding (and have now been resolved), and a fourth is in litigation as discussed below. The three complaints which have gone to a formal adjudicative proceeding are summarized below:

(1) The Minnesota Public Utilities Commission ("MPUC") alleged that several CLECs, including Integra Telecom of Minnesota, Inc., and interexchange carriers unlawfully negotiated intrastate access rates that differed from tariffed intrastate access rates. The complaint was resolved in a settlement between the MPUC and the respondents, including Integra Telecom of Minnesota, Inc., without any admission or finding of wrongdoing by Integra Telecom of Minnesota, Inc. *See In the Matter of Negotiated Contracts for Switched Access Services* (Docket No. P-442.5798, 5340, 5826, 5025, 5643, 443, 5323, 5668, 4661/C-04-235). **RESOLVED.**

¹ On rare occasion, a customer may erroneously lodge a complaint against Integra Telecom Holdings, Inc., due to a misunderstanding about the relationship between Integra Telecom Holdings, Inc., and the affiliate actually providing service to the customer. Integra Telecom Holdings, Inc. only holds international long distance section 214 authority and its subsidiaries provide international services pursuant to that authority.

² The six operating entities of Integra Telecom Holdings, Inc., which are currently providing local exchange services are: (1) Integra Telecom of Oregon, (2) Integra Telecom of Washington, (3) Integra Telecom of Utah, (4) Integra Telecom of Minnesota, (5) Integra Telecom of North Dakota, and (6) Scott-Rice Telephone Company.

(2) The Minnesota Public Utility Commission ("MPUC") investigated whether Integra Telecom of Minnesota, Inc. and/or Scott-Rice Telephone Company violated Minnesota Statute 216A.036 as a result of Integra Telecom Holding, Inc.'s hiring of Greg Scott, a former MPUC Commissioner, as Vice President of Regulatory Affairs. Minnesota Statute 216A.036 prohibits a former commissioner from being employed by a rate-regulated entity within one year after the end of the former commissioner's term. On November 2, 2005, the MPUC issued an order finding that the employment restriction was violated and imposed penalties on the former commissioner. However, the MPUC did not impose penalties on Integra Telecom Holdings, Inc., Integra Telecom of Minnesota, Inc., or Scott-Rice Telephone Company because, among other things, Integra Telecom Holdings, Inc. had relied on a legal opinion that stated that its employment of Mr. Scott would not violate Minnesota Statute 216A.036.³ *See In the Matter of a Commission Investigation of Issues Governed by Minnesota Statutes, Section 216A.036, Docket No. P-5643, 426/C1-04-1790 (Minn. PUC Nov. 2, 2005).* **RESOLVED.**

(3) The Washington Utilities and Transportation Commission ("WUTC") alleged that Qwest and 13 CLECs, including Integra Telecom of Washington, Inc., entered into interconnection agreements that were not filed with the WUTC. Integra Telecom of Washington, Inc. believed at the time it entered into the agreement with Qwest that—based on the law in existence at the time—the agreement did not constitute an "interconnection agreement," and that Qwest was the only party obligated to file an interconnection agreement with the WUTC. Integra Telecom of Washington, Inc. entered into a settlement agreement with the WUTC which stated that while the company did not believe the agreement required submission to the WUTC at the time it entered into the agreement, the company acknowledged that the agreement constituted an "interconnection agreement" under Federal Communications Commission and WUTC rules and orders at the time of the settlement agreement. Integra Telecom of Washington paid the WUTC \$1,000 in settlement of the case. *See Washington Utilities & Transp. Commission v. Advance Telecom Group, Inc., et al., Docket No. UT-033011.* **RESOLVED.**

The only outstanding formal customer complaint proceeding involving Integra Telecom Holdings, Inc. or any of its subsidiaries is a 2005 lawsuit filed in King County Superior Court, State of Washington against Integra Telecom of Washington, Inc. by a customer. The customer has alleged a violation of the Washington Consumer Protection Act based on Integra Telecom of Washington, Inc.'s practice of billing a certain surcharge to its customers, and the customer is pursuing class action status. The customer is seeking actual and treble damages for the proposed class, costs and attorney fees, and injunctive relief. Integra Telecom of Washington, Inc. denies the claims. The case is captioned *Indoor Billboard/Washington, Inc. v. Integra Telecom of Washington, Inc.*, Case No. 05-2-27405-1 SEA.

³ Pursuant to the requirements of Minnesota Statutes, Integra Telecom Holdings, Inc. paid the MPUC's cost of the proceeding.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JEFF HATCH-MILLER
Chairman
3 WILLIAM A. MUNDELL
Commissioner
4 MARC SPITZER
Commissioner
5 MIKE GLEASON
Commissioner
6 KRISTIN K. MAYES
Commissioner
7

8 IN THE MATTER OF THE JOINT
APPLICATION OF ELECTRIC
9 LIGHTWAVE, INC. AND INTEGRA
TELECOM HOLDINGS, INC. FOR
10 APPROVAL OF A LIMITED WAIVER OF
THE PUBLIC UTILITY HOLDING
11 COMPANIES AND AFFILIATED
INTEREST RULES
12
13

DOCKET NO. T-03054A-06-0154

DECISION NO. _____

ORDER

14 Open Meeting
June 27 and 28, 2006
15 Phoenix, Arizona

16 BY THE COMMISSION:

17 **Introduction**

18 On March 9, 2006, Electric Lightwave, Inc.¹ ("ELI") and Integra Telecom Holding, Inc.
19 ("Integra") filed a joint application requesting a limited waiver of the Arizona Corporation
20 Commission's ("Commission") Public Utility Holding Companies and Affiliated Interest Rules,
21 A.A.C. R14-2-801 to R14-2-806, in connection with a proposed transaction whereby Integra will
22 acquire 100 percent control of ELI².

23 On March 30, 2006, in response to a preliminary meeting requested by the Applicants on
24 February 24, 2006, the Applicants provided additional information and documents regarding the
25 application. The information was supplemented with additional information on April 4, 2006.
26

27 ¹ To the extent necessary, ELI requests that the Commission change the name associated with its certificate of
28 convenience and necessity from "Electric Lightwave, Inc." to "Electric Lightwave, LLC."

² Based on its operational revenues, ELI is considered a Class A Utility and therefore subject to the Rules.

1 On April 7, 2006, the Applicants filed an amendment to address the financing associated
2 with Integra's acquisition of ELI. In addition to its limited waiver application, the Applicants
3 requested an order from the ACC:

- 4 (i) authorizing the "pledge, mortgage, lien and/or encumbrance of the utility plant and
5 assets of ELI in connection with the Loan to Integra pursuant to A.R.S. § 40-285;
- 6 (ii) granting a limited waiver of A.A.C. R14-2-804(B) for ELI to guarantee the
7 obligations of Integra or, in the alternative, authorizing ELI to guarantee the
8 obligations of Integra under the Loan pursuant to A.A.C. R14-2-804(B); and
- 9 (iii) finding that the requirements of A.R.S. § 40-301 et seq., as they might otherwise
10 apply to this transaction, are inapplicable to ELI as a foreign public service
11 corporation providing communications service within the State of Arizona pursuant
12 to the exemption set forth in A.R.S. § 40-301(D)."

12 On April 7 and April 14, 2006, the Applicant provided information in response to Staff's
13 First Set of Data Request.

14 On May 26, 2006, the Applicant provided information in response to Staff's Second Set of
15 Data Requests.

16 FINDINGS OF FACT

17 Background of Applicants

18 The Company in its Application represents the following:

19 1. ELI was founded in 1990 and organized under the laws of Delaware, and
20 headquartered at 4400 NE 77th Avenue, Vancouver, Washington 98662. ELI is a wholly-owned
21 subsidiary of CU Capital LLC ("CU Capital"), a Delaware limited liability company, which is
22 wholly-owned by Citizens Communications Company ("Citizens"), a Delaware corporation.

23 2. ELI provides integrated communications products, including local telephone, data,
24 network, and long distance services, to small and medium enterprise businesses, carriers, and the
25 growing e-commerce market. ELI has built and operates networks in Phoenix, Arizona; Portland,
26 Oregon; Seattle, Washington; Sacramento, California; Salt Lake City, Utah; and Boise, Idaho.
27 Nationwide, ELI offers long distance, data, Internet access and broadband transport services.

28 ...

1 3. In Arizona, ELI is authorized to provide local exchange and intraLATA toll
2 services pursuant to a Certificate of Convenience and Necessity granted by the Commission in
3 Decision No. 59982 issued in Docket No. U-3054A-95-503 on January 16, 1997. ELI is a full
4 service telecommunications provider, offering business customers a suite of integrated products
5 and services, including local phone service, switched and dedicated long distance, private
6 networks, advanced data and Internet access services.

7 4. ELI's product suite is targeted at business customers that desire service at a DS 1
8 level 1.544 Megabits per second and the equivalent of 24 channels or above. ELI serves
9 approximately 1,793 business customers and employs approximately 27 people in Arizona. ELI
10 does not offer service to residential customers in Arizona.

11 5. ELI's primary operations and customer base in Arizona are in the greater Phoenix
12 metropolitan area. ELI also provides some services in other areas in Arizona, including Flagstaff,
13 Tucson, Kingman, Casa Grande, Prescott, Yuma, and Bullhead City.

14 6. Integra Telecom Holdings, Inc. is an Oregon corporation headquartered at 1201 NE
15 Lloyd Boulevard, Suite 500, Portland, Oregon 97232. Integra Telecom was founded in 1996
16 through the acquisition of OGI Telecomm, a shared tenant provider formed in 1984 to provide
17 voice and data services to the Oregon Graduate Institute and businesses in the AmberGlen
18 Business Park, a contiguous office park. In 1998, the company adopted the name Integra Telecom.

19 7. Integra's operating subsidiaries hold certificates to provide telecommunication
20 services in Idaho, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South
21 Dakota, Utah, Washington, and Wisconsin. Integra and its operating subsidiaries also are
22 authorized by the Federal Communications Commission to provide interstate and international
23 telecommunications. Integra is a facilities-based service provider, operating its network from
24 various switching centers throughout its operating regions. Integra serves over 300,000 access
25 lines across its operating area.

26
27 **The Companies' Request**

28 The Applicants represent the following:

1 8. The Applicants entered into a Membership Interest Purchase Agreement dated
2 February 6, 2006. Pursuant to the Agreement, Integra will purchase all interests in ELI from CU
3 Capital, and will thereby become the sole controlling owner of ELI. The purchase price to be paid
4 by Integra will be approximately \$247 million including \$243 million in cash plus the assumption
5 of \$4 million in capital leases, subject to customary adjustments.

6 9. Immediately following the transaction, ELI will continue to operate as a separate
7 subsidiary of Integra and under its current CC&N granted by the Commission in 1997.

8 10. The transaction will not cause ELI to increase its maximum rates on file with the
9 Commission for its competitive services.

10 11. ELI provides competitive services to small and medium enterprise businesses,
11 carriers, and the growing e-commerce market. The market for such services is highly competitive
12 and prices are set by competition. Accordingly, ELI has no incentive to charge unduly high or
13 above-market prices that could be used to fund or subsidize unregulated affiliates or to commingle
14 utility and non-utility funds in a manner that is harmful to Arizona consumers.

15 12. The Transaction is expected to result in the creation of jobs, increased customer
16 choice, and capital investment in Arizona. ELI currently employs approximately 27 people in
17 Arizona. Applicants intend to increase that number to roughly 80 people within the first twenty-
18 four months after closing and to continue to add employees as the organization grows in the future.

19 13. After closing this Transaction, ELI intends to begin offering DSO (plain old
20 telephone service) and DSL service, and related services and features, to small businesses in
21 Arizona that currently cannot obtain those services from ELI.

22 14. The Transaction will be conducted in a manner that is expected to be virtually
23 transparent to Arizona customers. The transfer of control linked to this Transaction will not result
24 in the discontinuance, reduction, loss, or impairment of service to customers.

25 15. In conjunction with the Transaction, Integra will raise a total of approximately \$450
26 million in new debt. Of that amount, approximately \$243 million will be paid to CU Capital for the
27 acquisition of all interests in ELI, and approximately \$175 million will be used to refinance
28 Integra's current loan obligations. Integra will hold all of the debt associated with the purchase.

1 16. The financing package includes two loan facilities, which, upon closing, will be
2 secured by the assets of Integra and its operating subsidiaries, including the assets of ELI in
3 Arizona.

4 17. Integra and its operating subsidiaries, including ELI, will execute guarantee
5 agreements and become guarantors of the debt held by Integra.

6 18. Integra has the financial wherewithal to undertake the obligations associated with
7 the Loan as evidenced by the audited consolidated financial statements for the years ended
8 December 31, 2005, 2004 and 2003, copies of which have previously been provided to Utilities
9 Division Staff pursuant to a Protective Agreement dated March 23, 2006.

10 19. Integra's capacity to service debt will be enhanced by the accretive cash flows that
11 Integra will derive from the acquisition of ELI. Sophisticated investors, many of whom are current
12 or prior investors in Integra, are funding the Loan, providing additional third party evidence of
13 Integra's financial wherewithal to undertake the obligations associated with the Loan.

14 20. Integra has an existing debt with an outstanding balance of \$174.5 million as of
15 December 31, 2005. Upon completion of this transaction, Integra will have outstanding debt of
16 \$450 million. Currently, ELI does not have any outstanding debt.

17
18 **Staff's Analysis & Recommendations**

19 21. Integra has informed Staff that neither Integra Telecom Holdings, Inc. nor any of its
20 operating subsidiaries have had any bankruptcies, civil judgments or criminal convictions.

21 22. Integra has informed Staff that, other than the acquisition of ELI, there are no
22 pending mergers involving Integra Telecom, Inc., Integra Telecom Holdings, Inc., or any of the
23 subsidiaries of Integra Telecom Holdings, Inc.

24 23. A copy of the customer notice being mailed to ELI customers has been provided to
25 Staff and is included as Attachment A.

26 24. Staff believes that the structure of ELI within Citizens combined with the nature of
27 this Transaction should have no impact on Citizens and its ILEC operations in Arizona. ELI is a
28 wholly owned subsidiary of Citizens and is being purchased in its entirety by Integra. The

1 accounting separations used by Citizens should have ensured that no cross subsidization occurred
2 between Citizens' regulated and unregulated operations.

3 25. The Applicants have indicated that ELI's Arizona employees will not be reduced as
4 a function of this Transaction. Staff believes that Integra's plan to increase ELI's current
5 employee base from 27 to approximately 80, within the first 24 months of operations, affords a
6 welcomed opportunity to increase the competitive nature of an Arizona telecommunications
7 market.

8 26. ELI has been found to be in compliance and good standing by the Commission's
9 Compliance and Consumer Services sections. Additionally, Integra provided Staff with a report of
10 its standing in other states (Attachment B).

11 27. ELI requests authorization to guarantee a \$200 million term loan and a second \$250
12 million term loan for Integra which will become ELI's parent company should the Commission
13 authorize Integra to purchase membership interests in ELI. Integra plans to use \$243 million from
14 the loans to purchase membership interests in ELI, \$175 million to refinance Integra's current loan
15 obligations, and the remainder for expenses related to the transactions and excess operating cash.
16 The guarantees will be secured by a pledge of ELI's plant and assets. The applicants seek only an
17 encumbrance of ELI's assets. ELI's Arizona customers are business rather than residential
18 customers. ELI currently has one customer deposit in Arizona in the total amount of \$1,200.

19 28. Staff recommends that the request contained in the subsequent financing
20 amendment for authorization of ELI to guarantee the obligations of Integra under the Loan
21 pursuant to A.A.C. R14-2-804(B) be approved.

22 29. Staff further recommends authorizing ELI to engage in any transaction and to
23 execute any documents necessary to effectuate the authorizations granted.

24 30. Staff recommends that the joint application of ELI and Integra for approval of
25 Integra's purchase of all the issued and outstanding membership interests in ELI be approved.

26 31. Staff further recommends that the Commission order include the following
27 conditions:

- 28 1. That for one year following acquisition close or until ELI and Integra inform the
Commission by filing an affidavit with Docket Control that acquisition-related

activities are completed, whichever occurs last, ELI and Integra provide written notification to the Director of the Utilities Division and to the individual members of the Commission, at least 60 days in advance, of any planned acquisition-related Arizona workforce layoffs; any planned acquisition-related Arizona plant closings; and any planned acquisition-related Arizona facility closings.

2. That ELI and Integra be required to review its numbering resources in the 480, 520, 602, 623, and 928 NPAs. To the extent that the Company's numbering resources in these NPAs exceed a six month inventory, ELI be required to , within sixty days of a Commission Decision in this matter, return to the Pooling Administrator all surplus thousands-blocks with less than ten percent contamination and inform the Commission of such actions through a filing in docket control.
3. That ELI and Integra provide Commission Staff, via Protective Agreement, with updates by April 15, 2007 and April 15, 2008 on the status of plans proposed in this Transaction to increase employees and investment in Arizona.
4. That ELI and Integra provide Commission Staff, via Protective Agreement, with updates by April 15, 2007 and April 15, 2008 on the status of debt financial plans proposed in amendments to this Transaction.
5. That ELI and Integra be limited from pledging any customer deposits, advances or prepayments currently held by ELI or which may be held by ELI in the future as security for any debt security.
6. That ELI notice its customers of the purchase of membership interests and financing application either through a direct mailing or publish notice in newspaper(s) of general circulation for ELI's customer base and file verification of the notice with Docket Control.

CONCLUSIONS OF LAW

1. ELI is a public service corporations within the meaning of Article XV of the Arizona Constitution.

2. The Commission has jurisdiction over ELI and of the subject matter in this filing.

3. The Commission, having reviewed the filing and Staff's Memorandum dated June 23, 2006, concludes that it is in the public interest to grant the joint application of ELI and Integra for a limited waiver of the Arizona Corporation Commission's ("Commission") Public Utility Holding Companies and Affiliated Interest Rules, A.A.C. R12-2-801 to R12-2-806, in connection with a proposed transaction whereby Integra will acquire 100 percent control of ELI.

4. The Commission, having reviewed the filing and Staff's Memorandum dated
Decision No. _____

1 June 23, 2006, concludes that it is in the public interest to grant the amendment filed by ELI and
2 Integra to address the financing associated with Integra's acquisition of ELI.

3 ORDER

4 IT IS THEREFORE ORDERED that the joint application of ELI and Integra for approval of
5 Integra's purchase of all the issued and outstanding membership interests in ELI be approved.

6 IT IS FURTHER ORDERED that the amendment filed by ELI and Integra to address the
7 financing associated with Integra's acquisition of ELI be granted.

8 IT IS FURTHER ORDERED that for one year following acquisition close or until ELI and
9 Integra inform the Commission by filing an affidavit with Docket Control that acquisition-related
10 activities are completed, whichever occurs last, ELI and Integra provide written notification to the
11 Director of the Utilities Division and to the individual members of the Commission, at least 60
12 days in advance, of any planned acquisition-related Arizona workforce layoffs; any planned
13 acquisition-related Arizona plant closings; and any planned acquisition-related Arizona facility
14 closings.

15 IT IS FURTHER ORDERED that ELI and Integra be required to review its numbering
16 resources in the 480, 520, 602, 623, and 928 NPAs.

17 IT IS FURTHER ORDERED that to the extent that the Company's numbering resources in
18 these NPAs exceed a six month inventory, ELI be required to, within sixty days of a Commission
19 Decision in this matter, return to the Pooling Administrator all surplus thousands-blocks with less
20 than ten percent contamination and inform the Commission of such actions through a filing in
21 docket control.

22 IT IS FURTHER ORDERED that ELI and Integra provide Commission Staff, via
23 Protective Agreement, with updates by April 15, 2007 and April 15, 2008 on the status of plans
24 proposed in this Transaction to increase employees and investment in Arizona.

25 IT IS FURTHER ORDERED that ELI and Integra provide Commission Staff, via
26 Protective Agreement, with updates by April 15, 2007 and April 15, 2008 on the status of debt
27 financial plans proposed in amendments to this Transaction.

28 IT IS FURTHER ORDERED that ELI and Integra be limited from pledging any customer

1 deposits, advances or prepayments currently held by ELI or which may be held by ELI in the
2 future as security for any debt security.

3 IT IS FURTHER ORDERED that ELI notice its customers of the purchase of membership
4 interests and financing application either through a direct mailing or publish notice in
5 newspaper(s) of general circulation for ELI's customer base and file verification of the notice with
6 Docket Control.

7 IT IS FURTHER ORDERED that the change of names from "Electric Lightwave, Inc." to
8 "Electric Lightwave, LLC." be granted.

9 IT IS FURTHER ORDERED that this Decision shall be become effective immediately.

10 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

11
12
13 CHAIRMAN

COMMISSIONER

14
15
16 COMMISSIONER

COMMISSIONER

COMMISSIONER

17 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
18 Director of the Arizona Corporation Commission, have
19 hereunto, set my hand and caused the official seal of this
20 Commission to be affixed at the Capitol, in the City of
21 Phoenix, this _____ day of _____, 2006.

22 _____
23 BRIAN C. McNEIL
24 Executive Director

25 DISSENT: _____

26 DISSENT: _____

27 EGJ:AFF:lhM/MAS
28

1 SERVICE LIST FOR: Electric Lightwave, Inc. and Integra Telecom Holding, Inc.
2 DOCKET NO. T-03054A-06-0154

3 Ms. Debra R. Scott
4 Mr. Jeffrey W. Crockett
5 Snell & Wilmer
6 One Arizona Center
7 Phoenix, Arizona 85004

8 Mr. Russell M. Blau
9 Mr. Brett P. Ferencak
10 Bingham McCutchen LLP
11 3000 K Street, NW, Suite 300
12 Washington, D.C. 20007

13 Ms. Hilary E. Glassman
14 General Counsel
15 Citizens Communications Company
16 3 High Ride Park
17 Stamford, Connecticut 06905

18 Mr. Jay Nusbaum
19 Associate Counsel, Government Affairs
20 Integra Telecom Holdings, Inc.
21 1201 NE Lloyd Boulevard, Suite 500
22 Portland, Oregon 97232

23 Mr. Ernest G. Johnson, Esq.
24 Director
25 Utilities Division
26 Arizona Corporation Commission
27 1200 West Washington Street
28 Phoenix, Arizona 85007

Mr. Christopher Kempley
Chief Counsel
Legal Department
1200 West Washington Street
Phoenix, Arizona 85007

ATTACHMENT A



Citizens Communications
3 High Ridge Park
Stamford, CT 06905
203.614.5600
Web site: www.czn.net

FOR IMMEDIATE RELEASE

Contact:
Michael Bromley
Investor Relations
203-614-5218
mbromley@czn.com

Citizens Communications To Sell Electric Lightwave

Stamford, Conn., February 7, 2006 — Citizens Communications (NYSE:CZN) today announced that it has entered into a definitive agreement to sell its subsidiary Electric Lightwave ("ELI") to Integra Telecom Holdings, Inc. The total proceeds from the sale are \$247 million including \$243 million in cash plus the assumption of \$4 million in capital leases, subject to customary adjustments. The sale is expected to close during the third quarter of 2006 and is subject to regulatory and other customary approvals as well as the funding of Integra's fully committed financing. The price will result in a book pre-tax gain on sale of approximately \$130 million.

ELI is a facilities-based integrated provider of internet, data, voice and dedicated access services to businesses and other carriers in the western United States. Cities and surrounding areas served by ELI are: Boise, Idaho; Portland, Oregon; Salt Lake City, Utah; Seattle, Washington; Spokane, Washington; Phoenix, Arizona; and Sacramento, California.

The expected use of net cash proceeds is for general corporate purposes.

Integra is a facilities-based integrated communications provider that primarily serves small and mid-sized companies located in the business centers of Minnesota, North Dakota, Oregon, Utah and Washington. Integra expects to close 2005 with \$155 million in revenue and 280,000 lines in service. Integra is a private company whose primary shareholders are Boston Ventures, Bank of America Capital and Nautic Partners. Integra's financing commitments are being provided by Goldman Sachs Specialty Lending Group and CIBC World Markets Corp. The company is headquartered in Portland, Oregon.

About Citizens Communications

More information about Citizens can be found at www.czn.net.

This document contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. These and all forward-looking statements (including oral representations) are only predictions or statements of current plans that are constantly under review by the company. All forward-looking statements may differ from actual results. The foregoing information should be read in conjunction with the company's filings with the U.S. Securities and Exchange Commission including, but not limited to, reports on Forms 10-K and 10-Q. The company does not intend to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

###

4400 NE 77th Avenue
Vancouver, WA 98662

(360) 816-3000 ~ FAX: (360) 816-0999

March 24, 2006

Dear [customer name]:

We are excited to inform you that Integra Telecom Holdings, Inc., an Oregon corporation, has agreed to purchase all of the outstanding ownership interests in Electric Lightwave, LLC (ELI) from Citizens Communications Company and its wholly owned subsidiary, CU Capital LLC. Please see the press release issued by Integra and attached to this letter. Integra Telecom shares ELI's commitment to customer service and, as a result of its commitment to customers, has been recognized as one of the fastest growing telecommunications companies dedicated to business and carrier customers. You can also learn more about Integra at <http://www.integratelecom.com>. Following the closing of the Transaction, ELI will remain in existence and continue to perform its obligations consistent with our existing relationship.

You can expect to receive the same high quality of service going forward, as ELI will continue to operate as a unit of Integra Telecom, maintaining the same products and services.

Please contact your ELI Representative at (866) 816-3000 with any questions.

ELECTRIC LIGHTWAVE, LLC

By: 

Name: Melinda White

Title: Vice President and General Manager

Customer Complaints and Regulatory Actions

Neither Integra Telecom Holdings, Inc., nor any of its subsidiaries, provides or has provided telecommunications services in Arizona. Thus, neither Integra Telecom Holdings, Inc., nor any of its subsidiaries, has ever received a customer complaint or been the subject of any regulatory enforcement proceeding in Arizona. In 2000, Integra Telecom of Arizona, Inc. filed an application with the Arizona Corporation Commission ("Commission") for a certificate of convenience and necessity to provide competitive local exchange and interexchange services in Arizona in Docket No. T-03856A-00-0178. However, the application was subsequently withdrawn by the applicant for business reasons before the Commission acted upon the application.

Like most businesses, the operating subsidiaries of Integra Telecom Holdings, Inc., work to diligently resolve customer complaints as part of their ongoing operations. The number of complaints lodged against Integra Telecom Holdings, Inc.¹ and its operating subsidiaries, however, is relatively small when compared with the total number of customers served by these subsidiaries. From January 2004 through January 2006, Integra Telecom Holdings, Inc. and the six operating subsidiaries currently providing local exchange services² were subject to a combined total of approximately 142 formal or informal customer complaints or regulatory enforcement actions. These six operating subsidiaries serve approximately 64,000 customers (with more than 300,000 access line equivalents) across a five-state operating region.

Of the complaints and regulatory proceedings identified above, only three have gone to a formal adjudicative proceeding (and have now been resolved), and a fourth is in litigation as discussed below. The three complaints which have gone to a formal adjudicative proceeding are summarized below:

(1) The Minnesota Public Utilities Commission ("MPUC") alleged that several CLECs, including Integra Telecom of Minnesota, Inc., and interexchange carriers unlawfully negotiated intrastate access rates that differed from tariffed intrastate access rates. The complaint was resolved in a settlement between the MPUC and the respondents, including Integra Telecom of Minnesota, Inc., without any admission or finding of wrongdoing by Integra Telecom of Minnesota, Inc. *See In the Matter of Negotiated Contracts for Switched Access Services* (Docket No. P-442.5798, 5340, 5826, 5025, 5643, 443, 5323, 5668, 4661/C-04-235). **RESOLVED.**

¹ On rare occasion, a customer may erroneously lodge a complaint against Integra Telecom Holdings, Inc., due to a misunderstanding about the relationship between Integra Telecom Holdings, Inc., and the affiliate actually providing service to the customer. Integra Telecom Holdings, Inc. only holds international long distance section 214 authority and its subsidiaries provide international services pursuant to that authority.

² The six operating entities of Integra Telecom Holdings, Inc., which are currently providing local exchange services are: (1) Integra Telecom of Oregon, (2) Integra Telecom of Washington, (3) Integra Telecom of Utah, (4) Integra Telecom of Minnesota, (5) Integra Telecom of North Dakota, and (6) Scott-Rice Telephone Company.

(2) The Minnesota Public Utility Commission ("MPUC") investigated whether Integra Telecom of Minnesota, Inc. and/or Scott-Rice Telephone Company violated Minnesota Statute 216A.036 as a result of Integra Telecom Holding, Inc.'s hiring of Greg Scott, a former MPUC Commissioner, as Vice President of Regulatory Affairs. Minnesota Statute 216A.036 prohibits a former commissioner from being employed by a rate-regulated entity within one year after the end of the former commissioner's term. On November 2, 2005, the MPUC issued an order finding that the employment restriction was violated and imposed penalties on the former commissioner. However, the MPUC did not impose penalties on Integra Telecom Holdings, Inc., Integra Telecom of Minnesota, Inc., or Scott-Rice Telephone Company because, among other things, Integra Telecom Holdings, Inc. had relied on a legal opinion that stated that its employment of Mr. Scott would not violate Minnesota Statute 216A.036.³ *See In the Matter of a Commission Investigation of Issues Governed by Minnesota Statutes, Section 216A.036*, Docket No. P-5643, 426/C1-04-1790 (Minn. PUC Nov. 2, 2005). **RESOLVED.**

(3) The Washington Utilities and Transportation Commission ("WUTC") alleged that Qwest and 13 CLECs, including Integra Telecom of Washington, Inc., entered into interconnection agreements that were not filed with the WUTC. Integra Telecom of Washington, Inc. believed at the time it entered into the agreement with Qwest that—based on the law in existence at the time—the agreement did not constitute an "interconnection agreement," and that Qwest was the only party obligated to file an interconnection agreement with the WUTC. Integra Telecom of Washington, Inc. entered into a settlement agreement with the WUTC which stated that while the company did not believe the agreement required submission to the WUTC at the time it entered into the agreement, the company acknowledged that the agreement constituted an "interconnection agreement" under Federal Communications Commission and WUTC rules and orders at the time of the settlement agreement. Integra Telecom of Washington paid the WUTC \$1,000 in settlement of the case. *See Washington Utilities & Transp. Commission v. Advance Telecom Group, Inc., et al.*, Docket No. UT-033011. **RESOLVED.**

The only outstanding formal customer complaint proceeding involving Integra Telecom Holdings, Inc. or any of its subsidiaries is a 2005 lawsuit filed in King County Superior Court, State of Washington against Integra Telecom of Washington, Inc. by a customer. The customer has alleged a violation of the Washington Consumer Protection Act based on Integra Telecom of Washington, Inc.'s practice of billing a certain surcharge to its customers, and the customer is pursuing class action status. The customer is seeking actual and treble damages for the proposed class, costs and attorney fees, and injunctive relief. Integra Telecom of Washington, Inc. denies the claims. The case is captioned *Indoor Billboard/Washington, Inc. v. Integra Telecom of Washington, Inc.*, Case No. 05-2-27405-1 SEA.

³ Pursuant to the requirements of Minnesota Statutes, Integra Telecom Holdings, Inc. paid the MPUC's cost of the proceeding.